Jefferson Lake

PETROCHEMICALS OF CANADA LTD.

ANNUAL REPORT 1969

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.

DECEMBER 31, 1969

DIRECTORS

*WILLIAM BELLANO
Chairman of the Board
Executive Vice-President, Occidental Petroleum Corporation, Cleveland, Ohio

*DAVID B. CHALMERS
President; President and Chief Executive Officer, Petrogas Processing Ltd.; Vice-President and Director, Cansulex Limited, Calgary, Canada

MARSH A. COOPER
President and Managing Director, Falconbridge Nickel Mines Limited, Toronto, Canada

WALTER R. DAVIS
Senior Executive Vice-President, Occidental Petroleum Corporation, Midland, Texas

*EBERHARD P. DEUTSCH
Senior Partner, Deutsch, Kerrigan & Stiles, Attorneys-at-Law, New Orleans, Louisiana

*ARMAND HAMMER
Chairman of the Board and Chief Executive Officer, Occidental Petroleum Corporation, Los Angeles, California

*J. HOWARD HAWKE
President, Gairdner & Company Limited, Toronto, Canada

J. ANGUS McKEE
Managing Director, Consolidated Tin Smelters Ltd., London, England

EUGENE F. REID
Executive Vice-President, Occidental Petroleum Corporation, Bakersfield, California

**LOUIS A. REZZONICO
Manager of Personal Investments; Director, Occidental Petroleum Corporation, Montecito, California

CHARLES K. SCHWARTZ
Retired Senior Partner, Gottlieb & Schwartz, Attorneys-at-Law, Los Angeles, California

ROBERT A. TEITSWORTH
Vice-President, Occidental Petroleum Corporation, Bakersfield, California

*THOMAS F. WILLERS
President, Occidental Petroleum Corporation, Los Angeles, California

*Member of the Executive Committee

**Deceased September 1st, 1969

OFFICERS

WILLIAM BELLANO,
Chairman of the Board

DAVID B. CHALMERS,
President

ARMAND HAMMER,
Chairman of the Executive Committee

HOWARD B. SHELTON,
Executive Vice-President

ROBERT A. TEITSWORTH,
Vice-President

RONALD P. HAVELOCK,
Secretary and Counsel

LEONARD P. BRINK,
Treasurer

DAVID BERTRAM,
Controller

PAUL C. HEBNER,
Assistant Secretary

MALCOLM W. MONROE,
Assistant Secretary

HEAD OFFICE OF THE COMPANY

1000 – Calgary House,
550 - Sixth Avenue Southwest,
Calgary 1, Alberta, Canada

FINANCIAL HIGHLIGHTS:

	1969	1968	Increase (Decrease) Amount	%
Total Revenues	$ 8,935,283	$10,919,507	$(1,984,224)	(18.2)
Net Cash Income	4,060,981	5,455,187	(1,394,206)	(25.6)
Per Share	$1.51	$2.04	$(0.53)	(26.0)
Net Income	2,819,252	4,175,585	(1,356,333)	(32.5)
Per Share	$1.05	$1.56	$(0.51)	(32.7)
Dividends Paid	803,824	1,594,246	(790,422)	(49.6)
Per Share	$0.30	$0.60	$(0.30)	(50.0)
Capital Expenditures	4,392,444	4,341,432	51,012	1.2
Working Capital	3,757,235	4,614,032	(856,797)	(18.6)
Shareholders' Equity	27,666,994	25,496,945	2,170,049	8.5
Long Term Debt	5,128,398	5,414,728	(286,330)	(5.3)
Shares Issued on Conversion of Series "B" Warrants †	14,377	26,744	(12,367)	(46.2)
Consideration Received	149,866	266,380	(116,514)	(43.7)
Warrants Outstanding Dec. 31†	96,933	111,310	(14,377)	(12.9)
Shares Outstanding Dec. 31	2,683,709	2,669,058	14,651	0.5

† Includes shares issued or reserved under anti-dilution provisions.

WILLIAM BELLANO

DAVID B. CHALMERS

TO THE SHAREHOLDERS

Your Company completed another successful year in spite of a substantial erosion in sulphur prices during this period. Revenues for 1969 were $8,935,283 and cash income and net income were $4,060,981 and $2,819,252, respectively. The Company attained a record high in production and sales of pipeline gas of 17,563 million cubic feet. Production of sulphur approximated 269,000 long tons, whereas sales of sulphur increased 11.2% over the previous year to approximately 222,000 long tons. Crude oil and natural gas liquids production and sales approximated 407,000 barrels.

Revenues, cash flow and earnings declined from the previous year. This decline is attributable entirely to the fall of world sulphur prices which arose out of continued imbalance in the supply and demand of this commodity. Prices in Alberta fell from above $30 per long ton f.o.b. plants at the commencement of the year to $15 per long ton at the year-end. There was further erosion in sulphur prices early in 1970, but the Company anticipates that such prices will tend to level out during the year.

Your Company's sulphur production is recovered as a by-product in extremely efficient manufacturing plants which allows the Company to meet the competitive pressures of today's markets. Furthermore, at current prices, your Company will penetrate many new markets which should result in long-range market benefits, and increased revenues. For example, during 1969, the Company's offshore export sales increased by 43.5%, and it is forecast that such exports will increase substantially in the next few years. The Company should remain viable with the strong sulphur market position held by its affiliates throughout the world. Also, the Company remains optimistic about the long-range future of sulphur. This commodity is an essential element in today's environment and because of expected tremendous population growth, natural resources, such as sulphur, will continue to benefit from increases in demand.

Your Company continues to broaden its earnings base with an aggressive program to explore for crude oil and natural gas, as well as to undertake the acquisition of oil and gas producing properties. During the year the Company purchased heavy crude oil producing properties in Saskatchewan which will add 3.54 million barrels in proven and probable reserves. Part of our thrust of diversification in natural resources is aimed at successful exploration efforts and property acquisition in the oil and gas industry. In addition, the Company is studying and evaluating other fields of endeavor compatible with our technical and financial abilities.

It is essential in order to achieve these goals that the economy of the country remain strong and viable. This can only be done through intelligent governmental monetary and fiscal policies. The management views with deep concern many aspects of Canada's "White Paper" on proposed tax reform. The proposed new treatment on the depletion allowance could be especially harmful to the oil and gas industry, as well as other aspects of the proposals including the submissions relative to capital gains and dividend treatment. Large amounts of capital are necessary for the continued growth of the Canadian economy, and incentives must be maintained to encourage investment in the development of the nation's resources. Capital is fluid, and it will seek an investment climate that, among other factors, has an equitable and fair taxation system which offers appropriate incentives commensurate with the business risks inherent in industries such as the exploration and development of natural resources. We hope that the wisdom of the government will allow it to review and re-evaluate these proposals.

* * * *

The Company expresses its deep sorrow in the passing of one of its directors, Dr. Louis A. Rezzonico, on September 1, 1969. Dr. Rezzonico gave unstintingly of his time to the direction of the Company's affairs, and his boundless energy and respected judgment which contributed so much to the progress of the Company will be sorely missed by his colleagues and associates.

The Company's success in 1969, and previous years, could not have been achieved without the fine efforts of its employees. On behalf of the Board of Directors, we express our sincere appreciation for the contributions and accomplishments of our employees — a vital asset to the corporation.

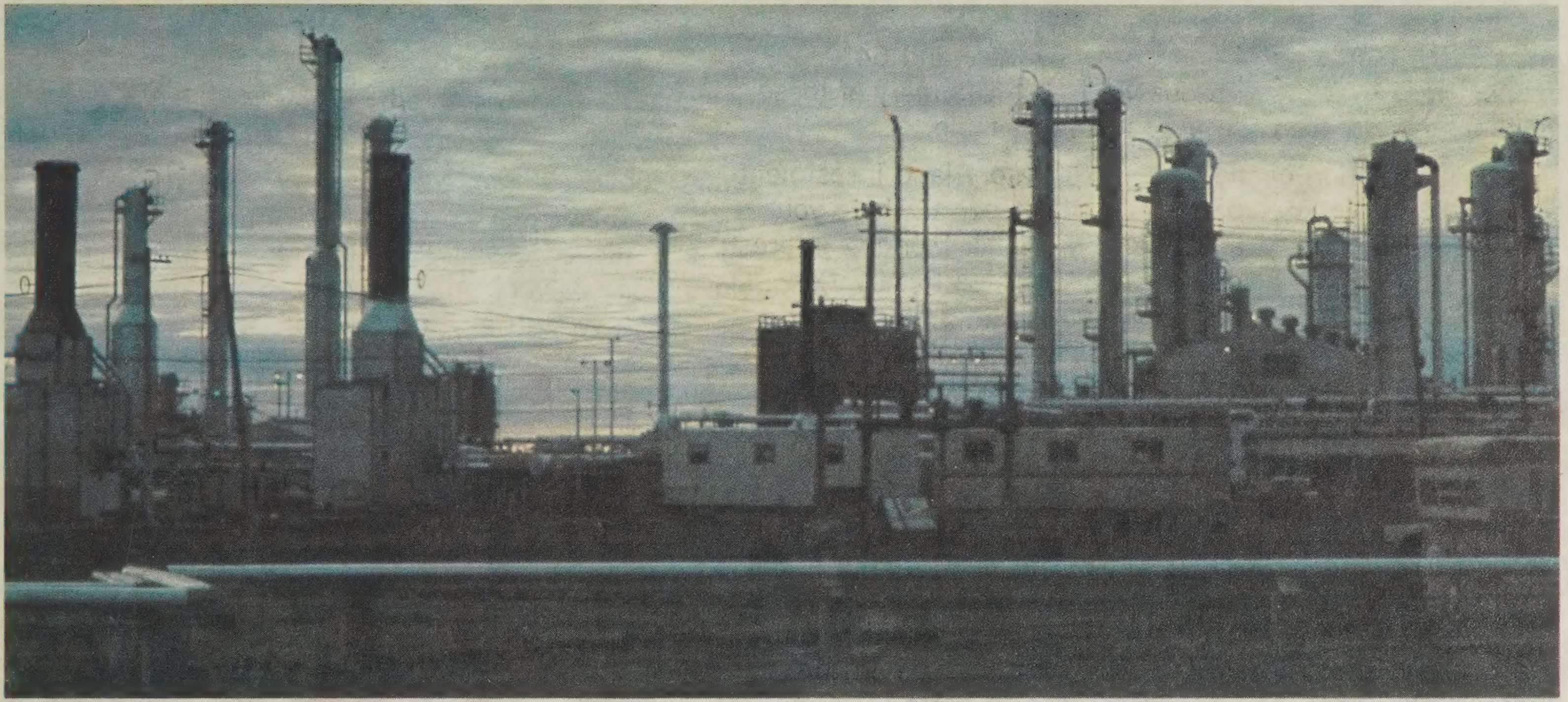
The management also values the confidence and support of the Company's many shareholders, and we will continue to devote our total energies to sustain this trust.

Respectfully submitted.

WILLIAM BELLANO
Chairman of the Board

DAVID B. CHALMERS
President

Calgary, Alberta
March 31, 1970.



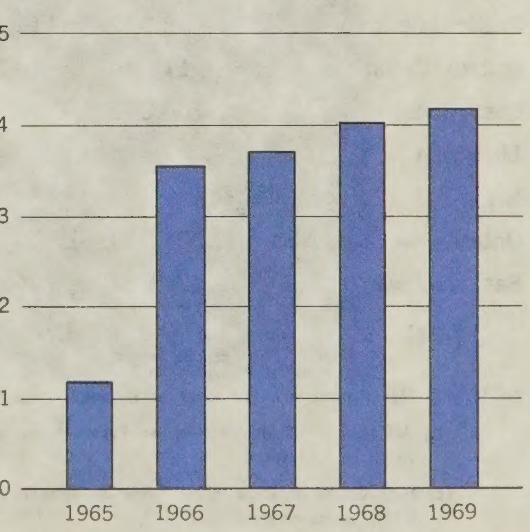
GENERAL REVIEW

EXPLORATION

The Company maintained, in a highly competitive environment, an active exploration program during 1969 in Western Canada which resulted in the selection of new holdings, appraisal and validation of existing land holdings, as well as contributing to and assisting in the acquisition of additional acreage in highly promising areas. Under its joint exploration venture with Occidental Petroleum Corporation, the Company accelerated its program of evaluating Alberta's highly potential Mississippian and Devonian reservoirs. This created a shift in emphasis from Saskatchewan to Alberta. While this shift in emphasis occurred, the Company nevertheless recognized that, in order to remain competitive, a broad land base was necessary. The Company therefore continued to expand its acreage holdings in areas outside the Western Canadian Basin, thereby increasing its exposure to future exploration activities in Canada through its own and other companies' exploratory programs.

LAND ACTIVITIES

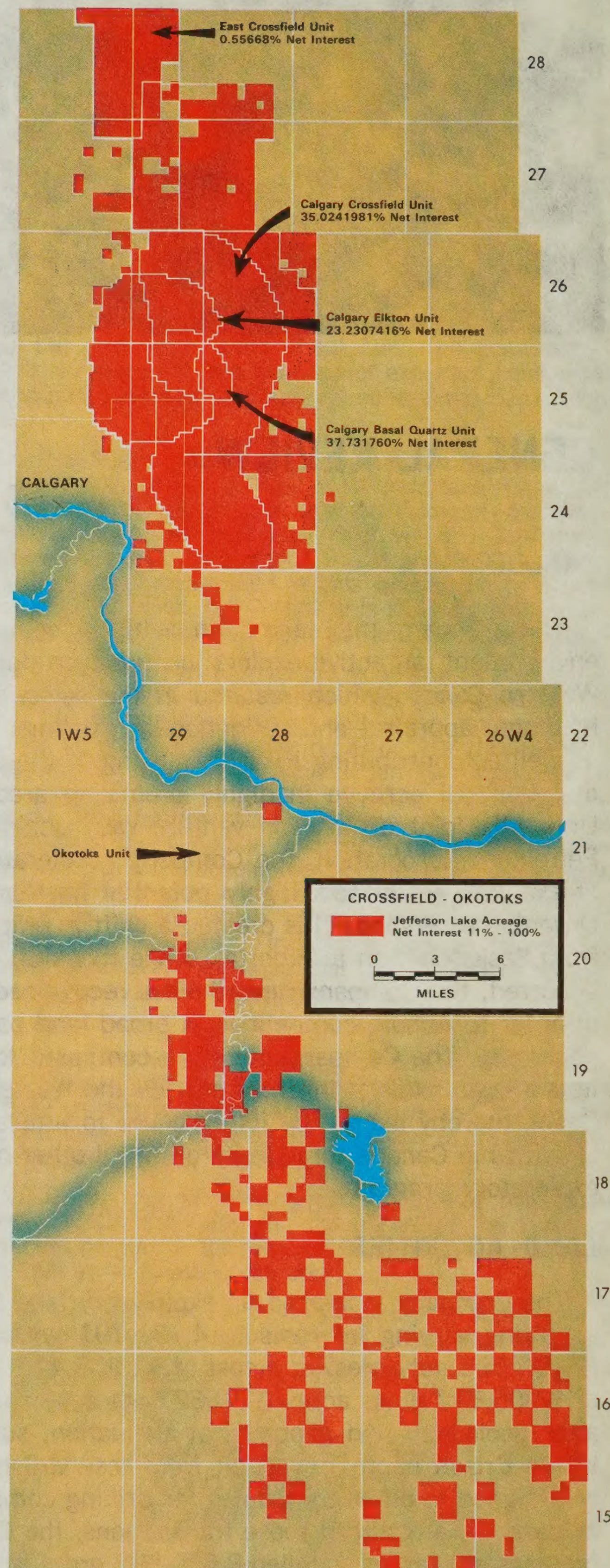
The Company increased its exploratory land holdings by acquiring varying interests in 4,701,791 gross acres (2,199,585 net acres) at a cost of $1,205,420. A total of 1,805,617 gross acres (910,627 net acres) were dropped after geological and geophysical evaluation, surrendered to the Crown upon conversion from reservations to leases, or assigned to other companies for drilling commitments or cash. As a result of these transactions, the Company's land holdings at year-end totalled 8,600,097 gross acres (3,309,518



net acres), increases of approximately 51% and 64% respectively, over the previous year. The summary of these holdings is shown in the accompanying table.

A major portion of the year's exploratory land investment was in the Kakwa Area of West Central Alberta, where your Company acquired, at a Crown sale, a 25% working interest in a 94,080-acre Petroleum and Natural Gas Reservation at a cost of $671,285. Varying interests in 3,680 gross acres were also acquired in this same general area at a cost of $81,468. Your Company has, throughout the year, in maintaining a position where other companies are conducting exploratory work, acquired at nominal cost, a 50% working interest in approximately two million acres in the James Bay Lowlands area and a 45% working interest in two million acres in the Foxe Basin of the Arctic Islands. Further additions totalling some 117,300 gross acres were made to the Company's acreage position with the acquisition of three reservations respectively in the Ante Creek, Timeu and Senex Areas of Alberta.

The Company sold its working interest in 704,338 acres located offshore from the Canadian East Coast for a substantial cash consideration, retaining a 1.75% gross overriding royalty. On shore and in the coastal waters of the Arctic Islands of Bathurst, Ellesmere and Axel Heiberg, the Company continues to hold a 50% interest in 392,000 acres. Interest in the Arctic, as one of the world's most promising oil and gas frontiers, continues to increase.



PROVINCE/AREA	1969 Gross Acres	1969 Net Acres	1968 Gross Acres	1968 Net Acres
Alberta	835,434	304,637	524,248	187,070
Arctic Islands	2,428,947	1,112,625	391,993	195,996
British Columbia	11,489	3,294	27,028	9,644
East Coast	750,880	23,271	750,880	375,440
Manitoba	—	—	21,502	10,751
N.W.T.	419,120	104,780	419,120	104,780
Ontario — James Bay	2,033,000	1,016,500	—	—
Saskatchewan	2,121,227	744,411	3,569,152	1,136,879
Total	8,600,097	3,309,518	5,703,923	2,020,560

NOTE: (a) Net figures exclude working interests owned by others.

(b) All totals include Permits or Reservations of which from 25% to 50% may be retained as leases.

(c) East Coast acreage gross total includes 704,338 acres on which Jefferson holds 1.75% gross overriding royalty.

EXPLORATORY OPERATIONS

During the year 1969, the Company participated in 22 exploratory wildcats.

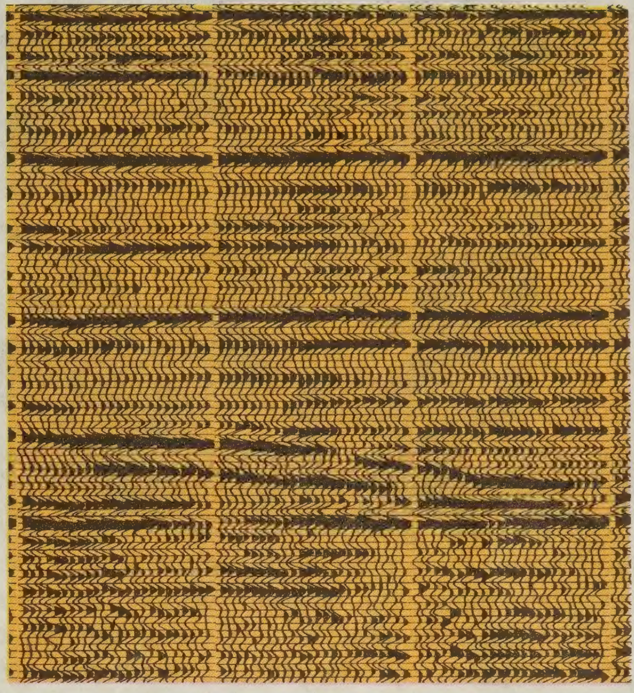
The South Okotoks Crossfield sour gas pool, south of Calgary, continued to receive study and evaluation by the Company, and resulted in the extension of the pool by the successful completion of a Company-operated exploratory test, located four miles south of its discovery well drilled in 1967. Development of Company acreage is expected to continue in 1970. Another exploratory well drilled by the Company under a farm-in agreement, south-west of the Okotoks gas field, encountered light gravity crude oil in the Upper Porous formation of Mississippian Age. Completion and production testing of this well is underway, with further drilling required in the area to determine the significance of this discovery.

In West Central Alberta, an area of considerable exploration activity by the industry, the Company conducted extensive seismic operations which resulted in attractive land acquisitions and significant deep exploratory wells. Although the wells drilled in the area were subsequently abandoned during the year, additional tests are planned during 1970 as a follow-up to the Company's land, geophysical and geological activities in this general trend.

Extensive activity is being generated by the industry in the Fort Simpson district of the Northwest Territories. In this district your Company conducted a major seismic program on a 419,120-acre block in which it has a 25% working interest. The completion and evaluation of this geophysical program in 1969 will result in at least one exploratory well being drilled by the Company on this acreage early in 1970. Further geophysical and drilling operations are planned for a later date.

The Company continued its activities in British Columbia during the year which resulted in the conclusion of three farm-out agreements in the Stoddart Area, where the Company currently has producing properties. The terms of these agreements required the drilling of three wells on Company acreage free of cost to the Company. While each well tested the primary gas bearing objective, commercial production was not obtained.

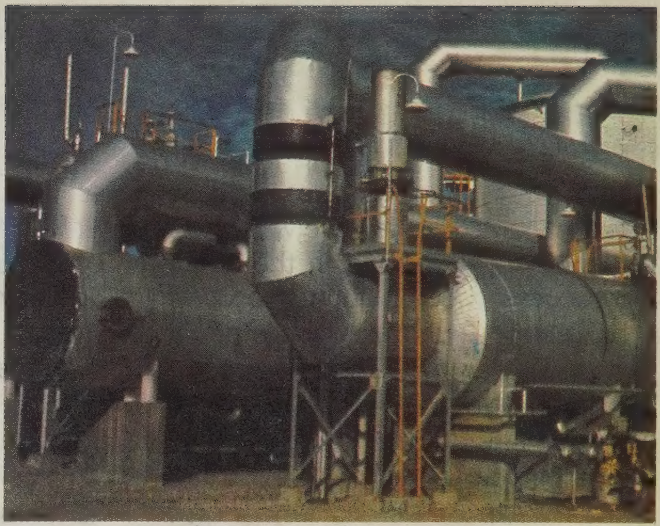
Evaluation of acreage holdings in Saskatchewan was principally through participation with, or in support of programs conducted by other companies. The Company, as a major participant with some 17 other companies in the multi-well drilling activity known as "The Pheasant Drilling Program", participated in seven exploratory wells in 1969, to evaluate the oil and gas potential of the Winnipegosis formation underlying the Company's extensive holdings in South Central Saskatchewan. The geological knowledge obtained as a participant in these operations assisted in selecting leases from the Company's various permits, which leases may be maintained until the Spring of 1971 at no further cost to the Company.



Seismic Record Section, West Central Alberta.

Natural gas and by-products, including elemental sulphur is produced from this porous rock taken from the Devonian Wabamun Formation in a well in which the Company has an interest.

In Southeastern Saskatchewan, four exploratory wells drilled on Company acreage were dry and abandoned. Two of these were drilled at no cost to the Company. In addition, the Company supported six exploratory wells in this area with land options resulting in two options being exercised and two earning wells drilled on Company acreage. One of these wells is currently being completed as a Mississippian oil well in which the Company will retain a gross overriding royalty.



DEVELOPMENT

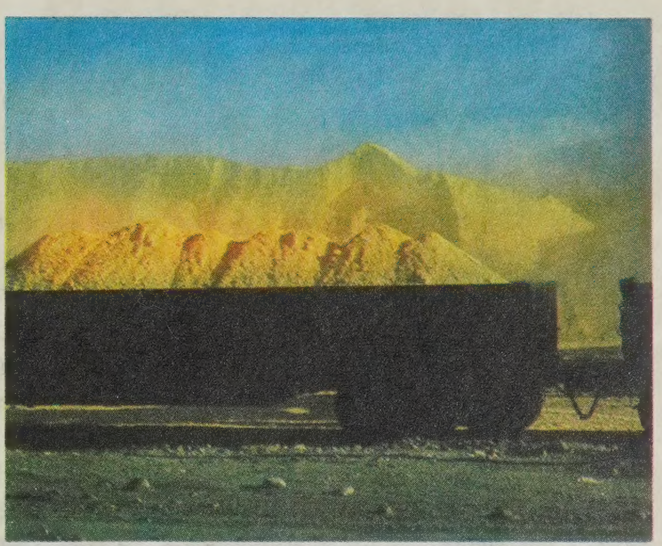
ACQUISITION

In conducting a program to increase its reserves and broaden its production base through the acquisition of other companies or their assets, the Company acquired, during the past year, producing properties in Saskatchewan. A major portion of this purchase from private interests was a substantial equity in the North Hoosier Bakken Sand Reservoir, located in West Central Saskatchewan. This reservoir produces heavy gravity crude from 23 wells and is a logical candidate for pressure maintenance by water-flooding to increase reserves and production rates. Unitization negotiations are currently underway and it is expected that water-flooding operations will commence about mid-year 1970. At year-end, the Company's share of gross production from this reservoir was approximately 12,000 barrels per month. Also included in the acquisition was a 6.2% equity in the North Hoosier Basal Blairmore Voluntary Unit, from which the Company's share of gross production approximates some 1,000 barrels of heavy crude per month. A 25% interest in a producing Basal Blairmore zone gas well in the same area was also acquired.

FIELD OPERATIONS

Field development operations during 1969 were primarily directed at the production function of wells in the Calgary Crossfield, Elkton and Basal Quartz Units and the associated Petrogas-owned field facilities operated by the Company on its and others' behalf. A total of 52 wells are operative in these three units, and are producing up to 300 million cubic feet per day of gas to Company-operated processing facilities. During the year a telecontrol system of certain well-site and gathering-system functions from a central control station was installed for labor-saving and safety purposes, and plans were initiated for consolidation of field separation facilities at a central site. From predictions of a computer-oriented mathematical study of the Elkton Unit reservoir, the short term need for future increased Elkton Unit deliverability was met through mechanical changes in the producing system. This resulted in deferring ultimate compressor investment for this reservoir for one year. No wells were drilled in the Unit areas during the year, because production from existing wells was sufficient to satisfy gas-purchase contract requirements.

In other field areas, two development wells were drilled, one in British Columbia which was completed as a gas well, and the other in Southeast Saskatchewan which was abandoned. The Company's total net interest in these ventures was 0.9 wells.



PRODUCTION

Field gas production averaged 261 million cubic feet per day from Company operated properties for the year, a slight increase over the 1968 average of 260 million cubic feet per day. The Company's working interest in production from Company operated and other properties averaged 77 million cubic feet per day for 1969, up 2% over the previous annual period. Crude oil production during the year totalled 23,936 barrels, a decrease from the 30,596 barrels produced in 1968. The impact of the Company's acquisition at Hoosier, Saskatchewan is not reflected in these figures, since the purchase was concluded late in the year.

Company Proven and Probable Reserves as at December 31st, 1969

	Proven	Probable	Total
Raw Natural Gas — BCF. . . .	532.6	26.7	559.3
Pipeline Natural Gas — BCF. . . .	341.4	16.8	358.2
Condensate — M. Bbls. . . .	4269.0	334.5	4603.5
L.P.G's — M. Bbls. . . .	2579.0	70.5	2649.5
Crude Oil — M. Bbls. . . .	742.0	3292.0	4034.0
Sulphur — M. LT. .	4003.0	250.0	4253.0

RESERVES

The Company's working interest in pipeline gas, natural gas liquids, crude oil and sulphur reserves at year-end were estimated as follows:

a) Proven pipeline gas reserves of 341.4 billion cubic feet, which is 11.1 billion cubic feet less than those estimated for 1968 after taking into account 17.6 billion cubic feet of pipeline gas produced during 1969. In addition the Company has probable pipeline gas reserves of 16.8 billion cubic feet.

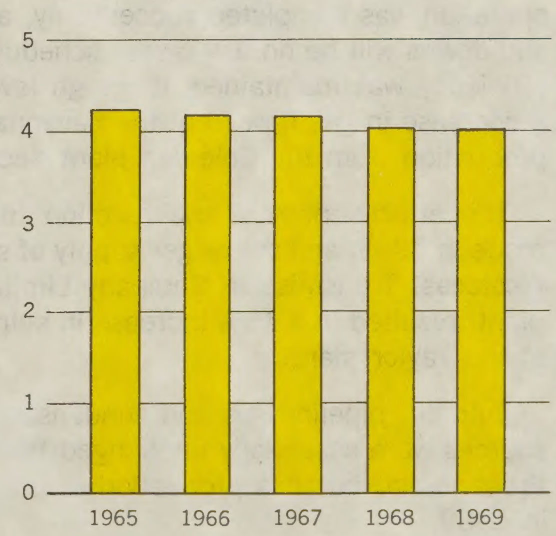
b) After taking into consideration 1969 production of 382,000 barrels, proven reserves of natural gas liquids were 6,848,000 barrels, some 197,000 barrels less than 1968 year-end reserves. Probable reserves of natural gas liquids in addition to those cited above are estimated at 405,000 barrels.

c) Reflected in proven crude oil reserves of 742,000 barrels is the acquisition of the Hoosier properties to which reference is made above. This is an increase of 398,000 barrels after consideration of production in 1969. The probable additional crude oil reserves of the Company are estimated at 3,292,000 barrels.

d) Proven sulphur reserves of 4,003,000 long tons after 1969 production of 188,000 long tons. This is 76,400 long tons less than estimated for year-end 1968. Additional probable sulphur reserves are estimated at 250,000 long tons.

RESERVES - SULPHUR

(Millions of Long Tons)



GAS PROCESSING AND SULPHUR RECOVERY PLANT OPERATIONS

The Company operates Petrogas Processing Ltd., sour natural gas processing and sulphur recovery plant, in which it has an interest of 30.9%. This plant, with a production rate of 2,000 long tons per day, has the largest design sour-gas sulphur production capacity of any plant now operating in North America. Propane, butanes and condensate are also recovered there. Company-owned sulphur recovery plants at Coleman, Alberta and at Taylor, British Columbia have a total design capacity of 775 long tons per day. All three plants use the modified "Claus process" to convert hydrogen sulphide to elemental sulphur. The Company also owns small working interests in sour gas processing plants operated by other companies in the East Crossfield and Wimborne fields.

An expansion of the Petrogas Plant's pipeline gas capacity from 196 million cubic feet per day to 215 million cubic feet per day commenced in June. By November, sufficient progress had been made to meet the maximum per day pipeline gas nominations under the Company's "take or pay" gas contracts with its purchasers Westcoast Transmission Company Limited and Trans Canada Pipe Lines Limited. Pipeline gas deliveries in December averaged 215.6 million cubic feet per day. The pipeline gas expansion at this plant will be completed by the installation of more refrigeration capacity in 1970 which will result in higher potential gas deliveries during the summer months.

Petrogas plant capacity for recovering stabilized distillate was doubled during the year by adding a second fractionation tower rated at 2,500 barrels per day. Capital projects also included installation of equipment to improve butanes quality as well as additional storage capacity. At year-end, engineering was in progress to provide modified field gathering facilities for transporting a combined stream of gas and liquids from the field to the plant. This change will reduce field operating costs and trucking formation water and condensate to the plant.

At the Coleman plant, a two-year period of continuous operation was completed successfully, and future plant shutdowns will be on a two-year schedule. Sulphur recovery efficiency was maintained at a high level, but because of a decrease in gas flow from the Savannah Creek field, total production from the Coleman plant decreased by 9%.

The effectiveness of the reaction furnace modifications made in 1968, and the larger supply of sour gas to the Westcoast Transmission Company Limited gas-processing plant, resulted in a 15% increase in sulphur production at the Taylor plant.

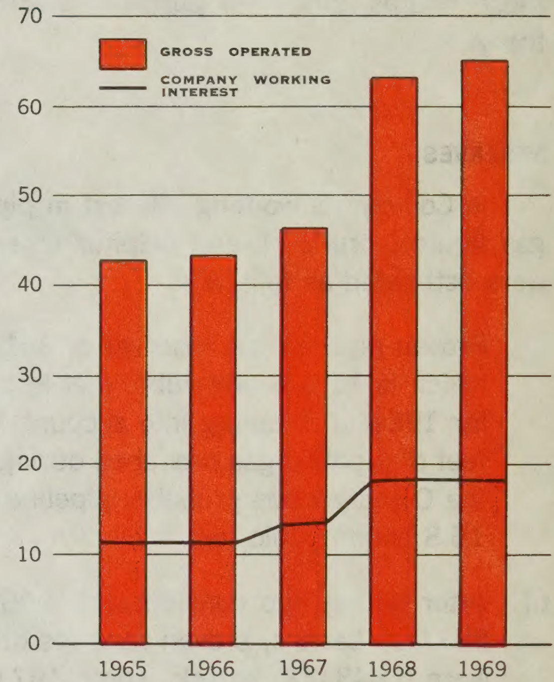
Sulphur, pipeline gas and condensate production from all sources were essentially unchanged from the previous year. Propane and butanes production reached record levels in 1969.

Comparative Production

Product	1969	1968
Sulphur, long tons		
Coleman	24,199	26,621
Taylor	57,037	49,587
Petrogas	184,005	196,705
Other plants	3,916	2,926
TOTAL	269,157	275,839
Pipeline gas, MMcf	17,563	17,537
Propane, barrels	65,041	54,399
Butanes, barrels	72,396	67,690
Condensate, barrels	244,098	242,897

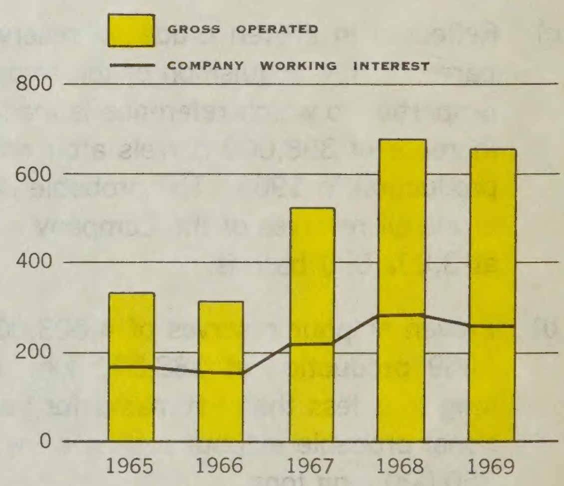
PIPELINE GAS PRODUCTION AND SALES

(Billions of Cubic Feet)



SULPHUR PRODUCTION

(Thousands of Long Tons)



Union agreements for all Company-operated plants were negotiated for a two-year contract period ending July 15, 1971, and the Company expects to maintain the stable labor relations which have existed since its inception.

MARKETS AND DISTRIBUTION

Although there is a continued trend of sulphur supply exceeding demand with the attendant competitive problems of declining prices, your Company expanded its market share by increasing sales 11.2% from 199,222 long tons in 1968 to 221,506 in 1969. This increase in sulphur sales was entirely attributable to an upswing in movements to offshore export markets. The percentage increase of 43.5 in such export markets resulted from the sales program of your Company's affiliate, Cansulex Limited, to penetrate new markets abroad. As a result, sulphur sales were made to the Netherlands, Belgium, West Germany and France, as well as to the historic Pacific rim markets of Australia, India, Taiwan, Korea, Philippines, Singapore, Indonesia and Chile.

Cansulex Limited, a producer-owned marketing company, is in its ninth year of operation, marketing Canadian sulphur in offshore markets. Petrogas Processing Ltd. owns a substantial interest in this highly-reputed worldwide sulphur marketing organization.

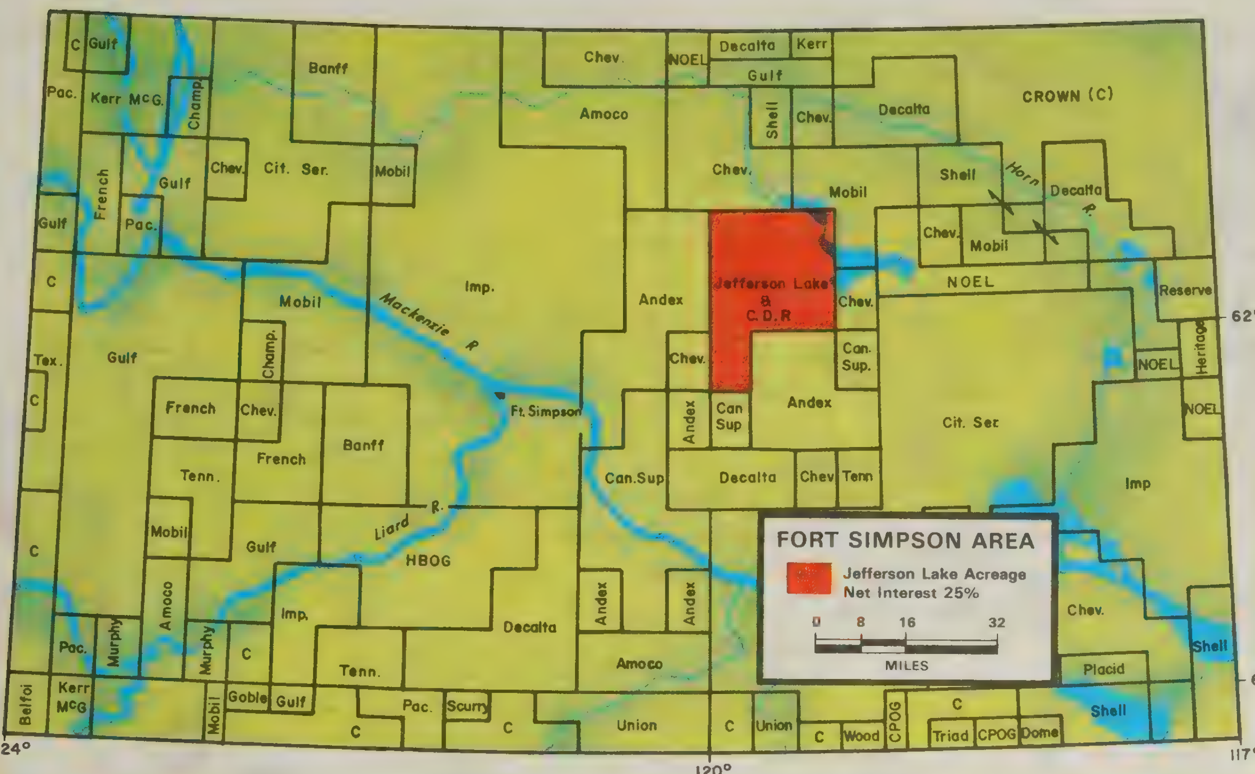
Jefferson Lake Sulphur Company, a division of Occidental Petroleum Corporation (which owns approximately 55% of your Company's outstanding shares), has established itself as a leading marketer on the North American continent over a period of 35 years. This company markets sulphur exclusively on behalf of your Company and Petrogas Processing Ltd. throughout Canada and the U.S.A.

Your Company played a leading role during 1969 in organizing an industry effort to reduce sulphur transportation costs from Alberta producing plants to export terminals on the Canadian West Coast. As a result, the Canadian railroad carriers have agreed to publish an interim reduced tariff for a period of one year under certain volume commitments and other conditions including use of unit trains. This tariff will apply between several key plants in Alberta, including the Petrogas facility and the terminals in the Vancouver area. In order to implement this movement fully, an operating and exchange plan was established by the sulphur-producing industry by which procedures were agreed to share the commitments to the railroads, and to effect the necessary exchanges of sulphur. The initial unit train movement from Petrogas commenced early in 1970, and it is contemplated that discussions with the railroad carriers will continue during the year with an objective to effect an even more efficient unit train system under further reduced tariffs over a long term period.

Company's Share of Sulphur Sales

	1969	1968
Petrogas	154,471	124,397
Peace River	40,821	45,045
Coleman	24,433	26,482
Other Sources	1,781	3,298
Total (long tons)	221,506	199,222
Export Sales L/T	83,110	57,917
North American Sales L/T	138,396	141,305


ARCTIC ISLANDS
195,996 net acres
Prudhoe Bay
Atkinson Point
YUKON
FOXE BASIN
916,629 net acres
Fort Simpson
(opposite page)
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASK.
MANITOBA
HUDSON BAY
West Central Alberta
(opposite page)
Crossfield - Okotoks
Page 4
JAMES BAY
1,016,500 net acres
U.S.A.
JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.
ACREAGE HOLDINGS


FORT SIMPSON AREA
Jefferson Lake Acreage
Net Interest 25%
0 8 16 32
MILES
Jefferson Lake & C.D.R
Ft. Simpson
Mackenzie R
Liard R.
Horn R.
CROWN (C)
62°
61°
124°
120°
117°

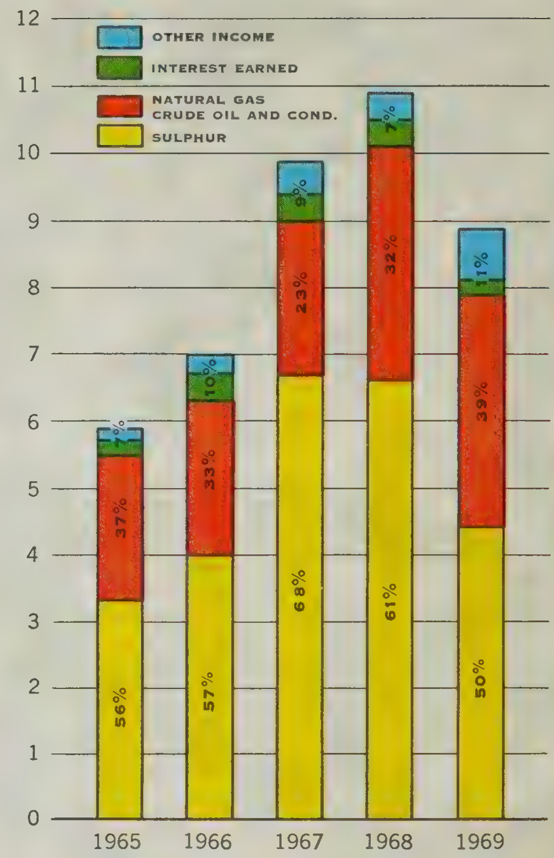

WEST CENTRAL ALBERTA
Jefferson Lake Acreage
Net Interest 12.5% - 50%
0 12 24
MILES
Sturgeon Lake S. Oil Field
Gold Creek Gas Field
Goose River Oil Field
Swan Hills Oil Field
Ante Creek Oil Field
Kaybob Oil Field
Virginia Hills Oil Field
Judy Creek Oil Field
Simonette Oil Field
Fox Creek Gas Field
Carson Creek Gas Field
Windfall Gas Field
Berland River Gas Field
Pine Creek Gas Field
EDSON GAS FIELD

The Company, through Petrogas Processing Ltd. participates in two major gas purchase agreements, one with Westcoast Transmission Company Limited and the other with Trans Canada Pipe Lines Limited. The Westcoast contract has been re-negotiated so that the original "take or pay" volume of 100 million cubic feet per day has been increased to 125 million cubic feet per day. This Westcoast contract is for a period of 20 years from January 1, 1962 with yearly contract price increases at the rate of ¼ cent per 1000 cubic feet (the 1969 price was 16.5 cents per Mcf). After July 1, 1970, the agreement provides that prices will be subject to periodic review for increase of prices by agreement or arbitration. The Trans Canada contract, as amended, is for a term of 25 years commencing from November 1, 1967. Under this contract, Trans Canada is obligated to purchase on a "take or pay" basis, a minimum daily quantity averaged over each contract year equal to 1 million cubic feet of pipeline gas for each 8.4 billion cubic feet of the contract reserves, or an average daily volume of 41.6 million cubic feet. The price under the contract in 1969 was 13.75 cents per 1,000 cubic feet, and escalates yearly at ¼ cent per 1,000 cubic feet.

Although prices for propane and butanes were generally lower in 1969 as compared to the previous year, the near and long term demand appears very favorable for these products. It is believed that the long-range demand for crude oil and condensate will be excellent. It is apparent that the U.S. demand for crude oil must be satisfied to a large extent in future years by imports, and Canada remains the most secure and stable source of such imports.

GROSS REVENUE

(Millions of Dollars)



FINANCIAL REVIEW

EARNINGS:

Consolidated net income was $2,819,252 or $1.05 per share, a decrease of 33% from the $4,175,585 or $1.56 per share in 1968; and cash income was $4,060,981 or $1.51 per share, a decrease of 26% from the $5,455,187 or $2.04 per share in 1968.

REVENUES:

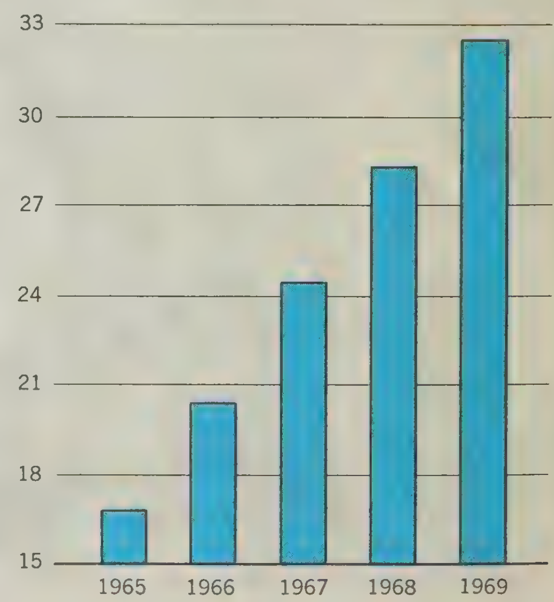
Gas and oil sales revenue increased by $23,204 over 1968 to $3,504,831, due to slightly higher sales of natural gas liquids, while sulphur-sales revenue decreased by $2,131,258 from 1968 to $4,436,600 despite higher sales volumes of 22,284 long tons. This decline is due entirely to lower sulphur prices.

Interest income decreased by $255,145 from 1968 to $177,796. This decline is due to the pre-payment, in October 1968, of five million dollars (U.S.) notes held by Occidental Petroleum Corporation. This decrease is offset in lower interest expense for the year 1969.

Other income increased by $378,975 over 1968 to $816,056 due to (1) the sale of notes and shares in Pacific Asbestos Corporation for $161,156, (2) the sale of certain properties

GROSS CAPITAL ASSETS

(Millions of Dollars)



for $191,818, and (3) additional fees covering the administration of the Jefferson Lake-Occidental joint exploratory agreement.

EXPENSES:

Costs and expenses decreased by $627,891 to $6,116,031. Depreciation, depletion and amortization included in the 1969 costs amounted to $1,440,293 as compared to $1,187,238 for 1968. It is noteworthy that, despite the continuing inflation of material and labor costs, together with increased production and sales volumes and reduced sulphur prices, the cash operating and expense costs were held at 52c per revenue dollar as compared to 51c per revenue dollar in 1968.

CASH FLOW:

Funds amounting to $4,625,801 were provided for the Company's business during 1969, and funds expended amounted to $5,482,598. The inflowing cash included $4,060,981 generated from operations, $154,621 from common stock issued on exercise of warrants and employee stock options, $279,261 on the sale of capital assets, and $130,938 which consists primarily of the replacement of Government deposits with promissory notes, and the recovery of certain expenditures previously included in deferred charges. The balance of $856,797 was obtained out of working capital. As at December 31, 1969, working capital remained at $3,757,235 (ratio of 3.4 to 1).

During the year, the Company spent $4,392,444 on fixed assets, provided $286,330 for debt repayment, and paid dividends of $803,824.

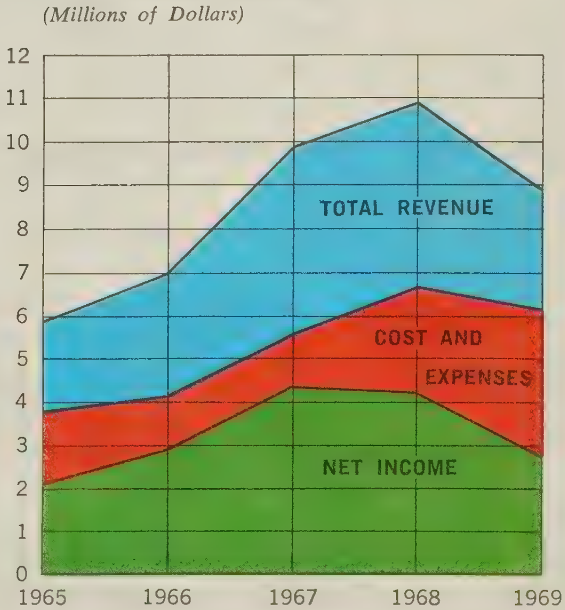
DIVIDENDS:

Your directors met on June 15, 1969, and discussed at length the Company's anticipated financial situation in light of the current down-trend in the market price of sulphur which is affecting the Company's earnings adversely.

As you see from the financial statements, your Company is in a strong financial position, and your directors were anxious to maintain it in such a healthy condition.

To that end, it was necessary to conserve the Company's assets in order to keep it in a sufficiently strong position to enable it to continue the carefully-planned aggressive program of exploration and exploitation of natural resources on which the Company's strength has been built so successfully.

Your directors therefore determined to suspend the payment of dividends pending further consideration, and decided instead to hold its earnings to further the Company's business, and to strengthen its future development. This conservative policy under present circumstances can only further the Company's interests, and correspondingly serve the best interests of the Company's shareholders.



JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD. AND WHOLLY-OWNED SUBSIDIARY

FIVE YEAR FINANCIAL AND OPERATING REVIEW*

		1969	1968	1967	1966	1965
	Gross Operating Income	$ 8,935	10,920	9,911	7,048	5,910
	Net Income Before Special Credits	$ 2,819	4,176	4,263	2,925	2,125
	Per Share †	$ 1.05	1.56	1.60	1.24	0.99
	Per Share (Pro Forma) †	$ 1.04	1.53	1.66	1.17	0.90
FINANCIAL	Net Income Including Special Credits	$ 2,819	4,176	4,263	2,925	2,125
DATA	Per Share †	$ 1.05	1.56	1.60	1.24	0.99
	Per Share (Pro Forma) †	$ 1.04	1.53	1.66	1.17	0.90
	Dividend Declared Per Share	$ 0.30	0.60	0.50	0.325	0.30
	Working Capital	$ 3,757	4,614	9,958	9,055	9,112
	Long Term Debt (Excluding Current Portion)	$ 5,128	5,415	10,809	10,817	10,823
	Shareholders' Equity	$27,667	25,497	22,603	17,336	14,261
	Lease Acquisition and Carrying Costs	$15,194	12,610	10,866	9,791	7,897
GROSS	Wells and Field Equipment	$10,505	9,571	8,634	6,640	5,061
PROPERTY	Exploration	$ 2,651	1,869	930	162	110
ACCOUNTS	Plants	$ 3,805	3,841	3,640	3,639	3,568
	Other	$ 355	369	343	294	177
		$32,510	28,260	24,413	20,526	16,813
	Lease Acquisition and Carrying Costs	$ 2,586	1,767	1,075	1,917	333
	Wells and Field Equipment	$ 962	1,373	2,018	1,620	977
CAPITAL	Exploration	$ 792	941	768	63	55
EXPENDITURES	Plants	$ 14	222	3	78	74
	Other	$ 38	38	66	120	32
		$ 4,392	4,341	3,930	3,798	1,471
PROVEN	Pipeline Gas (Billions of Cubic Feet)	341	353	359	349	344
RESERVES	Natural Gas Liquids and Crude Oil (Thousands Bbls.)	7,590	7,390	8,210	7,955	8,597
	Sulphur (Thousands of Long Tons)	4,003	4,079	4,215	4,201	4,267
	Field Gas (Billions of Cubic Feet)	28.0	27.6	20.4	16.3	15.6
PRODUCTION	Pipeline Gas (Billions of Cubic Feet)	17.6	17.5	12.9	11.4	11.3
	Natural Gas Liquids and Crude Oil (Thousands Bbls.)	405.5	395.6	332.6	413.9	265.5
	Sulphur (Thousands of Long Tons)	269.2	275.8	218.2	156.1	161.3
	Pipeline Gas (Billions of Cubic Feet)	17.6	17.5	12.9	11.4	11.3
SALES	Natural Gas Liquids and Crude Oil (Thousands Bbls.)	406.9	395.6	332.3	414.9	264.1
	Sulphur (Thousands of Long Tons)	221.5	199.2	202.8	175.3	225.7
WELL DATA	Net Wells Capable of Production – Gas	16.5	16.9	17.1	13.0	7.6
	Oil	16.1	3.0	7.9	7.9	10.8
		32.6	19.9	25.0	20.9	18.4
LAND HOLDINGS	Gross Acres (Thousands of Acres)	8,600.1	5,703.9	3,914.9	2,343.2	613.1
	Net Acres (Thousands of Acres)	3,309.5	2,020.6	1,187.7	692.8	417.7
EMPLOYEES	Shares Outstanding at December 31	2,683,709	2,669,058	2,640,558	2,350,026	2,153,210
AND	Shareholders (Number of Shareholders)	4,124	3,441	2,868	3,744	3,238
SHAREHOLDERS	Employees (Number of Employees)	211	245	232	188	157

* With the exception of per share figures, dollar amounts are in thousands.

† See notes on Consolidated Statement of Income and Retained Earnings – page 15.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1969

	(Canadian dollars) 1969	1968
Sales and other revenue:		
Gas and oil sales	$3,504,831	$ 3,481,627
Sulphur sales, less freight and handling charges	4,436,600	6,567,858
Interest	177,796	432,941
Other income	816,056	437,081
	8,935,283	10,919,507
Costs and expenses (Note 7):		
Cost of products sold	4,806,424	4,868,059
Selling and administrative expenses	1,015,657	1,184,368
Interest on long term debt	243,562	508,543
Other expenses	50,388	182,952
	6,116,031	6,743,922
Net income for the year*	2,819,252	4,175,585
Retained earnings, beginning of year	4,777,258	2,195,919
	7,596,510	6,371,504
Less –		
Cash dividends paid – $.30 per share ($.60 – 1968)	803,824	1,594,246
Retained earnings, end of year	$6,792,686	$ 4,777,258

	1969	1968
*Net income per share (based on the weighted average of number of shares outstanding during the year)	$1.05	$1.57
*Pro forma net income per share assuming that the warrants and stock options outstanding at the end of the year had been exercised at the beginning of the year and the proceeds had been invested at 6% interest	$1.04	$1.53

CONSOLIDATED BALANCE SHEET
December 31, 1969

ASSETS

	(Canadian dollars) 1969	1968
CURRENT ASSETS:		
Cash (Note 2)	$ 1,636,502	$ 1,860,446
Short term investments, at estimated realizable value	158,438	165,357
Accounts receivable –		
Trade	770,609	658,885
Occidental Petroleum Corporation	152,655	157,133
Petrogas Processing Ltd.	983,121	1,360,851
Inventories –		
Sulphur, at average production cost which is below market	1,278,603	1,141,343
Tubular goods and supplies, at cost	330,126	421,744
Prepaid expenses	24,512	33,584
Total current assets	5,334,566	5,799,343
INVESTMENTS AND OTHER ASSETS, at cost:		
Petrogas Processing Ltd. (Note 3)	1,606,906	1,606,906
Refundable deposits and other investments	190,433	249,212
	1,797,339	1,856,118
CAPITAL ASSETS, at cost (Note 1):		
Sulphur extraction plants	3,804,510	3,841,085
Oil and gas properties –		
Leasehold interest and contract rights	15,193,734	12,610,116
Well costs	11,964,996	10,399,967
Well, lease and other equipment	1,546,576	1,409,274
	32,509,816	28,260,442
Less – Accumulated depreciation	1,424,596	1,295,239
Accumulated depletion	4,271,567	3,040,867
	5,696,163	4,336,106
	26,813,653	23,924,336
DEFERRED CHARGES (Note 1):		
Debt discount, premium and financing costs, less amortization of $187,012 ($160,330–1968)	415,792	442,474
Other	11,373	74,713
	427,165	517,187
	$34,372,723	$32,096,984

CONSOLIDATED BALANCE SHEET
December 31, 1969

LIABILITIES AND SHAREHOLDERS' EQUITY

	(Canadian dollars) 1969	1968
CURRENT LIABILITIES:		
Accounts payable	$ 863,321	$ 610,466
Accrued interest payable	100,610	109,516
Other accrued liabilities	335,158	456,293
Current portion of long term debt	278,242	9,036
Total current liabilities	1,577,331	1,185,311
LONG TERM DEBT, less current portion:		
4½% notes due August 1, 1985 (Note 4)	5,115,711	5,384,959
5¼% mortgage repayable in monthly instalments of $909, including interest, to March 1, 1973	12,687	29,769
	5,128,398	5,414,728
SHAREHOLDERS' EQUITY (Note 5):		
Capital stock, common shares of a par value of $1 each – Authorized – 6,000,000 shares; Outstanding – 2,683,709 shares in 1969, 2,669,058 shares in 1968	2,683,709	2,669,058
Capital in excess of par value	18,185,616	18,044,906
Series B warrants to purchase shares	4,983	5,723
	20,874,308	20,719,687
Retained earnings, per accompanying statement	6,792,686	4,777,258
	27,666,994	25,496,945
	$34,372,723	$32,096,984

APPROVED ON BEHALF OF THE BOARD:

William Bellow Director

David B Chalmers Director

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD. AND WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1969

	(Canadian dollars) 1969	1968
Source of funds:		
Net income	$2,819,252	$ 4,175,585
Add: Depreciation, depletion, amortization and other non-cash items	1,241,729	1,279,602
Net cash income	4,060,981	5,455,187
Proceeds of common stock issued on exercise of warrants and employee stock options	154,621	313,007
Proceeds on sale of capital assets	279,261	295,019
Other	130,938	–
	4,625,801	6,063,213
Application of funds:		
Acquisition of fixed assets –		
Leasehold interests	2,586,087	1,767,152
Well and exploratory costs	1,573,846	2,174,575
Lease and well equipment	180,836	139,837
Sulphur plant equipment	13,745	222,083
Other equipment	37,930	37,785
	4,392,444	4,341,432
Cash dividends	803,824	1,594,246
Reduction in long term debt	286,330	5,394,111
Other	–	77,479
	5,482,598	11,407,268
Resulting in a decrease in working capital of	856,797	5,344,055
Working capital, beginning of year	4,614,032	9,958,087
Working capital, end of year	$3,757,235	$ 4,614,032

NOTES TO FINANCIAL STATEMENTS

December 31, 1969

Note 1 — Accounting Policies:

The consolidated statements include the accounts of the Company and its wholly-owned subsidiary, Jefferson Minerals Corporation, which operates in the United States.

In accounting for oil and gas properties, the Company capitalizes all costs and expenses of acquiring, exploring for and developing oil, gas and sulphur reserves. Provisions for depreciation and depletion of the aggregate unrecovered portion of these costs (including preproduction expenses and costs of non-producing properties) have been computed on the basis of the ratio of the aggregate oil, gas and sulphur production to the aggregate estimated recoverable oil, gas and sulphur reserves.

Depreciation of sulphur plants and related equipment is provided by the unit-of-production method.

Debt discount, premium and financing costs, including such costs relating to long term debt redeemed, are being amortized by equal annual charges over the life of the 4½% notes.

Note 2 — Cash:

At December 31, 1969 cash included $1,532,194 of short term interest bearing bank deposits.

Note 3 — Petrogas Processing Ltd.:

The Company and certain other working interest mineral owners in the Calgary field incorporated Petrogas Processing Ltd. to construct and own the field facilities and plants for processing field gas from the Calgary field for the recovery of commercial pipeline gas, condensates, liquefied petroleum gases and elemental sulphur. These facilities and plants are operated by the Company, which has a 30.9% interest in Petrogas Processing Ltd. Details of the investment are as follows:

Shares	$ 309,020
Debentures due 1987	1,297,886
	$1,606,906

Note 4 — 4½% Notes Payable:

The 4½% notes of $5,000,000 (United States dollars) due August 1, 1985 issued to Occidental Petroleum Corporation are subject to required prepayment, without penalty, of 1/20 of the principal amount on August 1 in each of the years 1970 to 1980 inclusive, and .09 of the principal amount on August 1 in each of the years 1981 to 1984 inclusive, and to prepayment at the Company's option as specified in the Note agreements.

Under the terms of the Note agreements certain limited restrictions are imposed on the Company. Such restrictions had no practical effect at December 31, 1969.

Note 5 — Capital Stock and Capital in Excess of Par Value:

The Series B warrants, which are not redeemable, entitle the holders to purchase common shares of the Company at prices from $12 per share to June 1, 1970 increasing annually by $1 per share to $13 per share to June 1, 1971, subject to reduction if the Company issues or sells common shares (except by way of stock dividend or option granted to a serving officer or employee of the Company) for a consideration less than the subscription price then in effect under the Series B warrants. The warrants also contain anti-dilution provisions in the event of the payment of a stock dividend.

During the year ended December 31, 1969 warrants to purchase 14,377 shares were exercised and warrants to purchase 96,933 shares were outstanding at December 31, 1969.

Under the Company's stock option plan, options have been granted to executives and other employees of the Company at prices equivalent to the market value on date of grant. On December 31, 1969 options to purchase 14,213 shares at prices from $28.19 to $38.75 per share were outstanding and 16,068 shares were available for future grants. During the year options were cancelled in respect of 5,267 shares and exercised for the purchase of 274 shares at prices of $8.04 and $28.29 per share. The number of shares and price per share have been adjusted to give effect to stock dividends declared in 1966 and 1967 in accordance with anti-dilution provisions of the plan.

Changes in capital stock and capital in excess of par value are summarized hereunder:

	No. of shares	Capital stock	Capital in excess of par value
Balance, December 31, 1968	2,669,058	$2,669,058	$18,044,906
Exercise of Series B Warrants	14,377	14,377	136,229
Exercise of stock options	274	274	4,481
Balance, December 31, 1969	2,683,709	$2,683,709	$18,185,616

Note 6 – Income Taxes:

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. As a result no income taxes were paid from inception to December 31, 1969. After such claims approximately $240,000 of drilling, exploration and lease acquisition costs and $1,820,000 of undepreciated capital cost will remain to be carried forward and applied against future taxable income.

The Canadian Institute of Chartered Accountants has recommended the income tax allocation method of accounting whereby the income tax provision is based on the income reported in the accounts. Management, however, does not consider it appropriate to apply this method to differences in the timing of deductions for tax and accounting purposes with respect to drilling, exploration and lease acquisition costs; this view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, the deferred income tax provision would have been $990,000 and $1,400,000 for 1969 and 1968, respectively. The accumulated income tax reductions relating to all timing differences in the current and prior years amounted to approximately $6,800,000 at December 31, 1969.

Note 7 – Supplementary Income Statement Information:

Management fees —

Selling and administrative expense for 1969 included, (a) salaries and other remuneration of $77,077 paid by the Company to directors, (b) management services provided by Jefferson Lake Sulphur Company at a cost to the Company of $60,000 and (c) a fee of $1 per ton of sulphur sold on behalf of the Company by Jefferson Lake Sulphur Company.

Depreciation, depletion and amortization for 1969—

Depreciation, depletion and amortization have been charged in the accounts as follows:

Depreciation—	
Costs of products sold	$ 126,064
Selling and administrative expenses	35,804
Other income and expenses	21,043
	$ 182,911
Depletion—	
Costs of products sold	$1,230,700
Amortization of debt discount, premium and financing costs—	
Other expenses	$ 26,682

AUDITORS' REPORT

To the Shareholders of Jefferson Lake Petrochemicals of Canada Ltd.

We have examined the consolidated balance sheet of Jefferson Lake Petrochemicals of Canada Ltd. and its wholly-owned subsidiary as at December 31, 1969 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
January 30, 1970

PRICE WATERHOUSE & CO.
Chartered Accountants

PLANTS

Calgary Plant
Balzac, Alberta

Owned by Petrogas Processing Ltd.

Operated by Jefferson Lake
Petrochemicals of Canada Ltd.

Peace River Plant
Taylor, British Columbia

Coleman Plant
Coleman, Alberta

SULPHUR-SALES AGENTS

North America

Jefferson Lake Sulphur Company

4671 Southwest Freeway
Houston, Texas 77027

Cable Address "Jefflake"

Export

Cansulex Limited

1280 The Bentall Centre
505 Burrard St.
Vancouver, British Columbia

Cable Address "Cansulex"

TRANSFER AGENTS

National Trust Company, Limited
Toronto, Calgary, Montreal,
Winnipeg and Vancouver

The First National City Bank
New York, N.Y.

REGISTRARS

National Trust Company, Limited
Toronto, Calgary, Montreal,
Winnipeg and Vancouver

The Chase Manhattan Bank
New York, N.Y.

SOLICITORS

Deutsch, Kerrigan & Stiles
New Orleans, Louisiana

McDonald & Considine, Barristers
Calgary, Alberta, Canada

CHARTERED ACCOUNTANTS

Price Waterhouse & Co.
Calgary, Alberta, Canada

SHARES LISTED

American Stock Exchange
Toronto Stock Exchange

KEY PERSONNEL

Head Office

R. S. Blackett, Mgr. Economics & Planning
W. W. Chalmers, Mgr. Plant Operations
G. S. Horne, Mgr. Production
J. Meronek, Purchasing Agent
C. R. Mikkelborg, Mgr. Land
J. D. Ratcliffe, Mgr. Exploration
C. K. Stackhouse, Mgr. Personnel

Calgary Plant

R. S. Cunliffe
Plant Superintendent

Coleman Plant

C. R. Rasmussen
Plant Superintendent

Peace River Plant

J. Shaw
Plant Superintendent

Jefferson Lake
PETROCHEMICALS OF CANADA LTD.

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